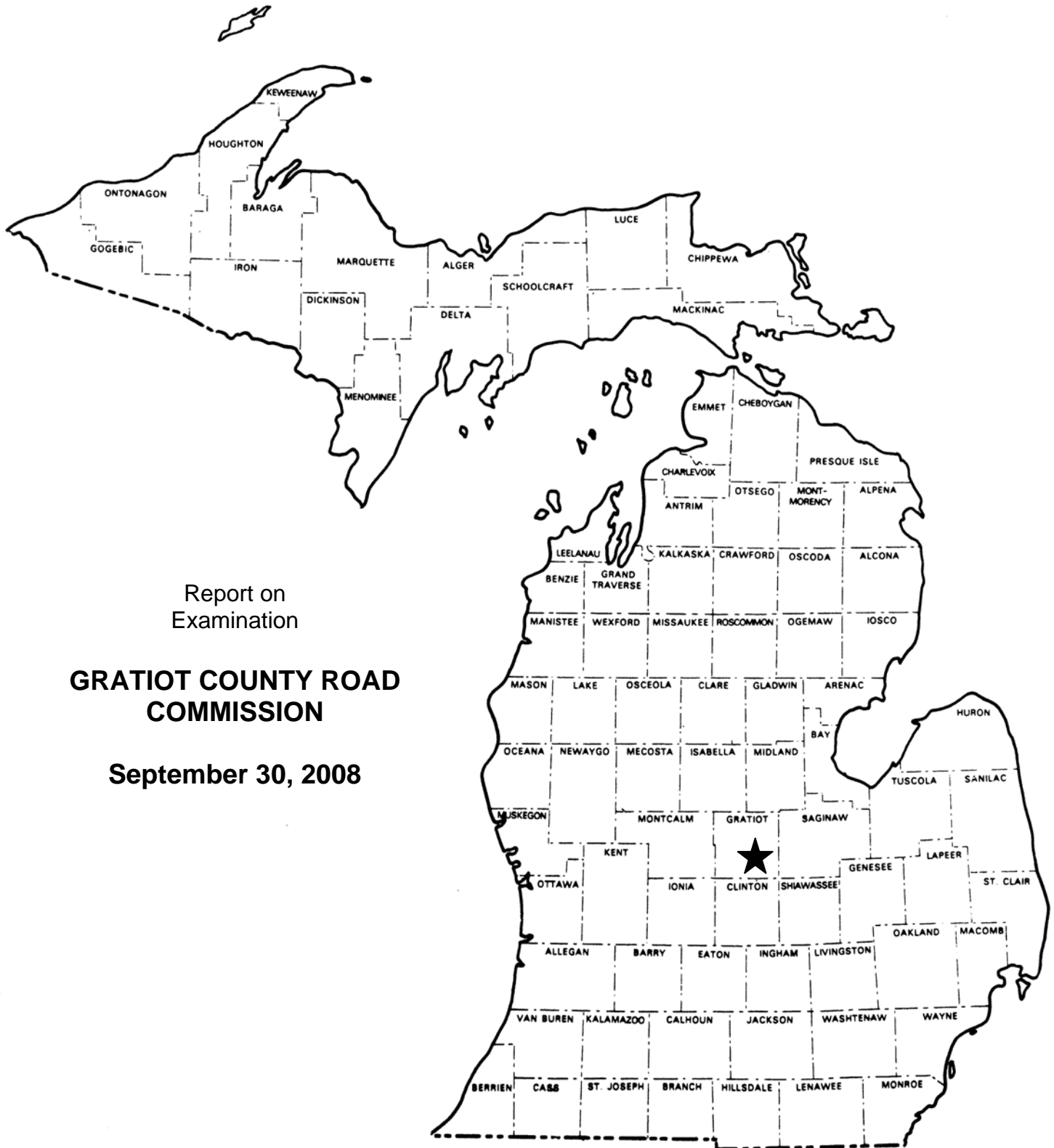


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**



GRATIOT COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

Wesley O. Federspiel  
Chairman

Leslie Whitford  
Vice-Chairman

Denis Netzley  
Member

Mark Craft  
Engineer/Manager &  
Superintendent/County Highway Engineer

Thomas J. Mayan  
Assistant County Highway Engineer

Betty Schumacher  
Finance Director/Clerk

COUNTY POPULATION--2000  
42,285

STATE EQUALIZED VALUATION--2008  
\$1,265,792,753



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

February 18, 2009

Gratiot County Road Commission  
Board of County Road Commissioners  
200 Commerce Drive  
P.O. Box 187  
Ithaca, Michigan 48847-0187

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Gratiot County Road Commission, a component unit of Gratiot County, Michigan, as of and for the fiscal year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gratiot County Road Commission as of September 30, 2008 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2009 on our consideration of the Gratiot County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 6 and the budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Gratiot County Road Commission's basic financial statements. The accompanying supplementary and related information in Exhibits I through K is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# GRATIOT COUNTY ROAD COMMISSION

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# GRATIOT COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2008

### Using this Annual Report

The Gratiot County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

### Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

### Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

# GRATIOT COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2008

### Report the Road Commission's Major Fund

The fund financial statements begin with Exhibit C and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

- **Governmental Fund**--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

### The Road Commission as a Whole

The Road Commission's net assets decreased approximately 2.48% or \$709,284 from \$28,632,552 to \$27,923,268 for the year ended September 30, 2008. The net assets and change in net assets are summarized below.

	2007	2008	Variance Increase (Decrease)	%
Current and Other Assets	\$ 2,659,971	\$ 2,500,924	\$ (159,047)	-5.98%
Net Capital Assets	26,581,580	26,509,375	(72,205)	-0.27%
Total Assets	29,241,551	29,010,299	(231,252)	-0.79%
Current Liabilities	127,468	608,585	481,117	377.44%
Long-Term Liabilities	481,531	478,446	(3,085)	-0.64%
Total Liabilities	608,999	1,087,031	478,032	78.49%
Net Assets				
Invested in Capital Assets				
Net of Related Debt	26,581,580	26,509,375	(72,205)	-0.27%
Restricted	2,050,972	1,413,893	(637,079)	-31.06%
Total Net Assets	\$ 28,632,552	\$ 27,923,268	\$ (709,284)	-2.48%

Restricted net assets, those restricted mainly for Act 51 purposes, decreased \$637,079 (or 31.06%). While the investment in capital assets-net of related debt decreased by \$72,205.

# GRATIOT COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2008

### Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2008 follows:

	Governmental Activities for 2007	Governmental Activities for 2008	Increase (Decrease)
Program Revenue			
License and Permits	\$ 37,273	\$ 36,000	\$ (1,273)
Federal Grants	1,148,782	1,942,035	793,253
State Grants	4,966,249	4,287,225	(679,024)
Contributions From Local Units	798,621	927,659	129,038
Charges for Services	1,153,213	1,061,663	(91,550)
Investment Earnings	68,998	67,968	(1,030)
Refunds and Reimbursements	55,381	52,475	(2,906)
General Revenue			
Gain on Equipment Disposal	127,415	29,435	(97,980)
Total Revenue	<u>8,355,932</u>	<u>8,404,460</u>	<u>48,528</u>
Expenses			
Primary Road			
Routine and Preventive Maintenance	1,328,520	1,860,307	531,787
Primary Road Structures Maintenance	6,590	73,299	66,709
Local Road			
Routine and Preventive Maintenance	2,618,736	2,233,214	(385,522)
Local Road Structures Maintenance	674	590,895	590,221
State Trunkline Maintenance	1,085,596	1,013,194	(72,402)
Net Equipment Expense	(129,286)	(282,282)	(152,996)
Net Administrative Expense	407,348	457,222	49,874
Non-Road Project	24,518	1,333,553	1,309,035
Infrastructure Depreciation	2,013,662	1,831,672	(181,990)
Interest Expense	1,524		(1,524)
Compensated Absences	(251)	2,670	2,921
Total Expenses	<u>7,357,631</u>	<u>9,113,744</u>	<u>1,756,113</u>
Change in Net Assets	<u>\$ 998,301</u>	<u>\$ (709,284)</u>	<u>\$ (1,707,585)</u>

### The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.



# GRATIOT COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2008

For fiscal year ended September 30, 2008, the fund balance of the General Operations Fund decreased \$634,410 as compared to an increase of \$439,047 in the fund balance for fiscal year September 30, 2007. Total operating revenues were \$8,404,460, an increase of \$48,528 as compared to the prior fiscal year. This change in revenues resulted primarily from an increase in Federal monies from the Heartland Trails revenue.

Total expenditures were \$9,038,870, an increase of \$1,121,986 as compared to the prior fiscal year. This change in expenditures is primarily due to the increase in Heartland Trail non-motorized project expenses for fiscal year 2008.

	2007	2008	Variance	%
Revenues				
Licenses and Permits	\$ 37,273	\$ 36,000	\$ (1,273)	-3.42%
Federal Aid	1,148,782	1,942,035	793,253	69.05%
State Aid	4,966,249	4,287,225	(679,024)	-13.67%
Contributions From Local Units	798,621	927,659	129,038	16.16%
Charges for Services	1,150,324	1,061,662	(88,662)	-7.71%
Interest and Rents	71,138	67,968	(3,170)	-4.46%
Other Revenue	183,545	81,911	(101,634)	-55.37%
Total Revenues	8,355,932	8,404,460	48,528	0.58%
Expenditures				
Public Works	7,399,611	8,701,302	(1,301,691)	-17.59%
Capital Outlay	515,749	337,568	178,181	34.55%
Interest Expense	1,524		1,524	100.00%
Total Expenditures	7,916,884	9,038,870	(1,121,986)	-14.17%
Excess of Expenditures Over Revenues	439,048	(634,410)	(1,073,458)	244.50%
Excess of Revenues and Other Financing Sources Over Expenditures	439,048	(634,410)	(1,073,458)	244.50%
Fund Balance--Beginning	1,923,897	2,362,945	439,048	22.82%
Fund Balance--Ending	\$ 2,362,945	\$ 1,728,535	\$ (634,410)	-26.85%

### Budgetary Highlights

Prior to the beginning of any fiscal year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the fiscal year, the Road Commission Board acts to amend its budget to reflect changes in the original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorized large expenditures when requested throughout the fiscal year.

# GRATIOT COUNTY ROAD COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2008

The original revenue budget for fiscal year 2008 was more than the actual revenue by \$1,507,976. This was due, in large part, to revenues for the Heartland Trail and hazard elimination being lower (\$1,391,000) than expected.

The Road Commission's original expenditures were projected at \$10,195,350, while actual expenditures were \$9,038,870. Total expenditures were over budget by \$243,434. This was primarily due to the late arrival of a \$396,713 billing for the Heartland Trail project and other expenditures being under budget.

### Capital Assets and Debt Administration

#### Capital Assets

As of September 30, 2008 (year end), the Road Commission had \$26,509,375 invested in capital assets as follows:

	2007	2008	Total Percentage Change 2007-2008
Capital Assets Not Being Depreciated			
Land	\$ 116,903	\$ 116,903	0.00%
Infrastructure--Land Improvements	505,401	533,684	5.60%
Land/Right-of-Way	3,086	3,086	0.00%
Subtotal	625,390	653,673	4.52%
Capital Assets Being Depreciated			
Land Improvements	59,959	59,959	0.00%
Buildings	2,237,985	2,242,635	0.21%
Equipment (Rd, Shop, Engr, Office)	5,916,890	5,980,861	1.08%
Yard and Storage	16,573	16,573	0.00%
Infrastructure	38,568,639	39,170,206	1.56%
Subtotal	46,800,046	47,470,234	1.43%
Total Capital Assets	47,425,436	48,123,907	1.47%
Total Accumulated Depreciation	(20,843,856)	(21,614,532)	3.70%
Total Net Capital Assets	\$ 26,581,580	\$ 26,509,375	-0.27%

The Road Commission reported the infrastructure and related assets during the current fiscal year in the amount of \$2,355,448. The infrastructure recorded, during fiscal year 2008, will be depreciated in the following fiscal year. The infrastructure is financed primarily through Federal, State and local contributions.

## GRATIOT COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2008

This fiscal year's major capital asset additions included the following:

Reconstruction of Bridges (by location)	\$ 664,195
Various Resurfacing Projects and Related Land/Right-of-Way	1,325,403
Land and Improvements	28,283
Trucks/Equipment	328,616
Building	4,650
Administrative, Engineering and Shop Equipment	4,302
	<hr/>
Total Additions	<u>\$ 2,355,449</u>

There were no installment purchase agreements entered into during fiscal year 2008. All the equipment purchased was acquired with Road Commission funds.

During fiscal year 2008, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$268,946, with related depreciation of \$101,725 and net book value of \$167,221.

#### Debt

The Road Commission currently experiences a relatively debt free status. Bonds issued in prior fiscal years have been paid off and retired. The Road Commission currently has long-term debt in the amount of \$314,642, an increase of \$2,670 from the prior fiscal year, which represents compensated absences payable at September 30, 2008.

#### Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2008 budget. One of the factors is the economy. The Road Commission derived approximately 49.71% of its revenues from the fuel tax collected in fiscal year 2008.

The board realizes, and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Gratiot County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Gratiot County.

#### Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Gratiot County Road Commission administrative offices at 200 Commerce Drive, Ithaca, MI 48847.

**GRATIOT COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS**  
**September 30, 2008**

**EXHIBIT A**

**ASSETS**

Cash	\$ 1,115,875
Investments	
Accounts Receivable	
Sundry Accounts	2,360
State--Trunkline Maintenance	130,031
Michigan Transportation Fund	724,024
State--Other	28,250
Due From Cities/Villages	33,369
Due on County Road Agreements	87,611
Inventories	
Road Materials	187,007
Equipment Parts and Materials	136,339
Prepaid Expenses	51,797
Other	4,261
Capital Assets (Net of Accumulated Depreciation)	<u>26,509,375</u>
Total Assets	<u>29,010,299</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	148,702
Due to State of Michigan	410,430
Accrued Liabilities	48,453
Performance Bonds Payable	1,000
Noncurrent Liabilities	
Advances From State	163,804
Vested Employee Benefits Payable	<u>314,642</u>
Total Liabilities	<u>1,087,031</u>

**NET ASSETS**

Investment in Capital Assets	
Net of Related Debt	26,509,375
Restricted for County Roads	<u>1,413,893</u>
Total Net Assets	<u>\$ 27,923,268</u>

**The Notes to Financial Statements are an integral part of this statement.**

**GRATIOT COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2008**

**EXHIBIT B**

Program Expenses	
Primary Road	
Routine and Preventive Maintenance	\$ 1,933,606
Local Road	
Routine and Preventive Maintenance	2,824,109
State Trunkline Maintenance	1,013,194
Net Equipment Expense	(282,282)
Net Administrative Expense	457,222
Non-Motorized Trail	1,333,553
Infrastructure Depreciation	1,831,672
Compensated Absences	2,670
Total Program Expenses	<u>9,113,744</u>
Program Revenue	
Charges for Services	
Licenses and Permits	36,000
Charges for Services	1,061,663
Contributions From Local Units	53,106
Other Contributions	52,475
Operating Grants and Contributions	
Michigan Transportation Funds	4,287,225
Investment Earnings	67,968
Capital Grants and Contributions	
Federal Grants	1,942,035
Contributions From Local Units	874,553
Total Program Revenue	<u>8,375,025</u>
Net Program Revenue	<u>(738,720)</u>
General Revenue	
Gain on Equipment Disposal	<u>29,435</u>
Total General Revenue	<u>29,435</u>
Change in Net Assets	(709,284)
Net Assets	
Beginning of Year	<u>28,632,552</u>
End of Year	<u>\$ 27,923,268</u>

**The Notes to Financial Statements are an integral part of this statement.**

**GRATIOT COUNTY ROAD COMMISSION  
BALANCE SHEET  
September 30, 2008**

**EXHIBIT C**

	<b>GOVERNMENTAL FUND TYPE</b>
	<b>General Operating Fund</b>
<b><u>ASSETS</u></b>	
Cash	\$ 1,115,875
Accounts Receivable	
Due From Cities	33,369
Due From Townships	87,611
State Trunkline Maintenance	130,031
Michigan Transportation Fund	724,024
State Department of Transportation--Other	28,250
Sundry Accounts	2,360
Inventories	
Road Materials	187,007
Equipment Parts and Materials	136,339
Prepaid Expense	51,797
Other	<u>4,261</u>
Total Assets	<u><u>\$ 2,500,924</u></u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities	
Accounts Payable	\$ 148,702
Accrued Liabilities	48,453
Due to State of Michigan	410,430
Performance Bonds Payable	1,000
Advances From State	<u>163,804</u>
Total Liabilities	<u>772,389</u>
Fund Equities	
Fund Balance	
Reserve for Inventory	323,346
Unreserved and Undesignated	<u>1,405,189</u>
Total Fund Equities	<u>1,728,535</u>
Total Liabilities and Fund Equities	<u><u>\$ 2,500,924</u></u>

**The Notes to Financial Statements are an integral part of this statement**

**GRATIOT COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE  
TO THE STATEMENT OF NET ASSETS  
For the Year Ended September 30, 2008**

**EXHIBIT D**

Total Governmental Fund Balance	\$ 1,728,535
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	26,509,375
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(314,642)</u>
Net Assets of Governmental Activities	<u><u>\$27,923,268</u></u>

**The Notes to Financial Statements are an integral part of this statement.**

**GRATIOT COUNTY ROAD COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
For the Year Ended September 30, 2008**

**EXHIBIT E**

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 36,000
Federal Aid	1,942,035
State Aid	4,287,225
Contributions From Local Units	927,659
Charges for Services	1,061,662
Interest and Rents	67,968
Other Revenue	<u>81,911</u>
Total Revenues	<u>8,404,460</u>
Expenditures	
Public Works	8,701,302
Capital Outlay	<u>337,568</u>
Total Expenditures	<u>9,038,870</u>
Excess of Revenues Over (Under) Expenditures	<u>(634,410)</u>
Excess of Revenues and Other Financing Sources Over Expenditures	(634,410)
Fund Balance--October 1, 2007	<u>2,362,945</u>
Fund Balance--September 30, 2008	<u><u>\$ 1,728,535</u></u>

**The Notes to Financial Statements are an integral part of this statement.**



**GRATIOT COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2008**

**EXHIBIT F**

Net Change in Fund Balance--Total Governmental Funds \$ (634,410)

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated  
over their estimated useful lives as depreciation expense. This is the amount  
by which capital outlays exceeded depreciation in the current period.

(72,205)

Equipment retirement is recorded as an expenditure credit in governmental  
funds, but not recorded as an expense in the Statement of Activities.

Some expenses reported in the Statement of Activities do not require the use  
of current financial resources and, therefore, are not reported as expenditures  
in governmental funds. (Increase in compensated absences and decrease in  
interest expense)

(2,670)

Change in Net Assets of Governmental Activities

\$ (709,284)

**The Notes to Financial Statements are an integral part of this statement.**

## GRATIOT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

The accounting policies of the Gratiot County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Gratiot County Road Commission.

#### NOTE A--REPORTING ENTITY

The Gratiot County Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by an elected 3-member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the county board of commissioners.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Gratiot County Road Commission, a discretely presented component unit of Gratiot County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Gratiot County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

## GRATIOT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

##### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

##### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

##### Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

#### Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Gratiot County Road Commission as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of five years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. All Road Commission equipment is capitalized if there is a schedule C rate for it, regardless of the cost.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. Effective with the fiscal year ended September 30, 2003, the Gratiot County Road Commission adopted the provisions of GASB Statement No. 34 and also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980.

#### Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	5 to 10 years
Office Equipment	5 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

During the fiscal year ended September 30, 2008, expenditures were incurred in excess of amounts appropriated in the amended budget in total and for the following activities:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Non-Motorized Transportation--Heartland Trail	\$ 955,000	\$ 1,333,553	\$ (378,553)

### NOTE D--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are in various banks in the name of the county treasurer. MCL 129.91 et seq., authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper within the two highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50% of any one fund. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

### NOTE D--CASH AND INVESTMENTS (Continued)

The board of county road commissioners has adopted an investment policy similar to the county's policy in accordance with investment provisions in Public Act 20 of 1943.

At year end (and during the year), the Road Commission did not have any investments, the deposits were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	\$ 1,115,675
Petty Cash and Cash on Hand	<u>200</u>
Total	<u>\$ 1,115,875</u>

The bank balance of the Road Commission's deposits is \$1,263,851, of which \$300,000 is covered by Federal depository insurance. On October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 per depositor through December 31, 2009.

### Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission did not have any investments in the fiscal year ended September 30, 2008. The Road Commission's investment policy does not contain specific provisions to limit the Road Commission's exposure to credit risk. The policy does contain provisions to limit the Road Commission's exposure to concentration of credit risk.

### Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission's investment policy does not contain specific provisions to limit the Road Commission's exposure to interest rate risk.

## GRATIOT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

#### NOTE D--CASH AND INVESTMENTS (Continued)

##### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s), or a specific class of securities.

##### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Road Commission's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Road Commission is not exposed to custodial credit risk for investments.

#### NOTE E--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Gratiot County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

### NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Account Balances 10/01/07	Additions	Deductions	Account Balances 09/30/08
Capital Assets Not Being Depreciated				
Land	\$ 116,903			\$ 116,903
Infrastructure--Land/Right-of-Way	3,086			3,086
Infrastructure--Land Improvements	505,401	\$ 28,283		533,684
Subtotal	625,390	28,283	\$ -	653,673
Capital Assets Being Depreciated				
Land Improvements	59,959			59,959
Buildings	2,237,985	4,650		2,242,635
Road Equipment	5,429,894	328,616	268,947	5,489,563
Shop Equipment	139,263	2,302		141,565
Office Equipment	237,306	2,000		239,306
Engineer's Equipment	110,427			110,427
Yard and Storage	16,573			16,573
Infrastructure--Bridges	15,213,685	664,195		15,877,880
Infrastructure--Roads	23,350,396	1,325,403	1,388,031	23,287,768
Infrastructure--Traffic Signals	4,558			4,558
Total	46,800,046	2,327,166	1,656,978	47,470,234
Less Accumulated Depreciation				
Land Improvements	40,013	1,723		41,736
Building	631,671	39,122		670,793
Road Equipment	4,540,873	359,075	101,725	4,798,223
Shop Equipment	97,331	7,647		104,978
Office Equipment	184,325	16,147		200,472
Engineer's Equipment	89,260	4,217		93,477
Yard and Storage	13,327	829		14,156
Infrastructure--Bridges	5,245,987	312,838		5,558,825
Infrastructure--Roads	9,996,731	1,518,760	1,388,030	10,127,461
Infrastructure--Traffic Signals	4,338	73		4,411
Total	20,843,856	2,260,431	1,489,755	21,614,532
Net Capital Assets Being Depreciated	25,956,190	2,327,166	2,427,654	25,855,702
Total Net Capital Assets	<u>\$ 26,581,580</u>	<u>\$ 2,355,449</u>	<u>\$ 2,427,654</u>	<u>\$ 26,509,375</u>



# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

### NOTE F--CAPITAL ASSETS (Continued)

#### Depreciation Expense

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 360,610
Indirect Equipment	
Shop Building	25,664
Storage Building	829
Shop Equipment	7,647
State Salt Shed	8,929
Net Administrative Expense	
Buildings	4,529
Office Equipment and Furniture	16,147
Yard and Grounds	2,682
Engineers Equipment	
Land Improvements	1,723
Infrastructure	<u>1,831,671</u>
Total Depreciation Expense	<u><u>\$ 2,260,431</u></u>

### NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balances</u> <u>10/01/07</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>09/30/08</u>
Vested Employee Benefits			
Vacation Benefits	\$ 157,924	\$ (5,773)	\$ 152,151
Sick Leave Benefits	<u>154,048</u>	<u>8,443</u>	<u>162,491</u>
Total	<u><u>\$ 311,972</u></u>	<u><u>\$ 2,670</u></u>	<u><u>\$ 314,642</u></u>

#### Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned are credited to his/her bank monthly for salaried employees and annually for union employees, as determined on their anniversary date and years of service. Maximum allowable accumulations are 450 hours for salaried employees and 320 hours for all other full-time Road Commission employees. Upon separation from employment, 100% of accumulated vacation leave is payable to employees.

## GRATIOT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

#### NOTE G--LONG-TERM DEBT (Continued)

##### Sick Leave Benefits

The Road Commission's employment policies provide that every salaried employee shall accumulate sick leave with pay at the rate of 8 hours per month, not to exceed 96 hours per year, with unlimited accumulation. Every union employee shall accumulate sick leave with pay at the rate of 5.34 hours per month, not to exceed 64 hours per year, with a maximum accumulation of 1,040 hours (130 days). Any employee, upon reaching an accumulation of 1,040 hours (130 days) of unused sick time, shall be paid for all additional accrual of sick time at 75% of the employee's current rate on the first pay in the month of December. An employee with a minimum of 3 years service and unused sick leave in excess of 240 hours (thirty days), may opt to sell back to the Road Commission up to 160 hours (20 days) of sick leave annually at 1/2 of the employee's current rate provided their accumulation would not drop below 240 hours (30 days).

Upon death, resignation or retirement, union employees shall be paid 1/2 of their accumulated sick leave (computed on a maximum of 1040 sick leave hours) at the employee's prevailing rate of pay at the time of the termination of employment. Upon death, retirement or termination, salaried employees shall receive a payment of sick leave days paid at their current pay scale, not to exceed 520 hours. Sick leave herein is recorded at 100% of maximum payable leave.

#### NOTE H--EMPLOYEES' RETIREMENT SYSTEM

##### Description of Plan and Plan Assets

The Gratiot County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2007.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12a), State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

### NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

#### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which requires employees to contribute 3% of their annual compensation to the plan, which amounted to \$49,881. The Road Commission is required to contribute at an actuarially determined rate; the current rate was 10% for general employees and 6.57% for salaried employees, for the calendar year December 31, 2007, based on 2005 actuarial determination.

#### Annual Pension Cost

During the calendar year ended December 31, 2007, the Road Commission's contributions totaling \$234,762 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2005. The employees contributed \$49,881 in accordance with the personnel policy and bargaining unit agreement. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer's normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

#### Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 134,457	100%	\$0
2006	226,128	100%	0
2007	234,762	100%	0

# GRATIOT COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

### NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

#### Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/05	\$ 9,910,430	\$ 10,638,710	\$ 728,280	93%	\$ 1,657,109	44%
12/31/06	10,379,713	12,389,902	2,010,189	84%	1,691,578	119%
12/31/07	10,840,512	13,051,742	2,211,230	83%	1,616,186	137%

### NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Gratiot County Road Commission became a charter member in 1982.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

## GRATIOT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

#### NOTE J--OTHER POST-EMPLOYMENT BENEFITS

The Road Commission agrees to pay the first \$200 per month towards the hospitalization coverage premium for any employee who retires after the effective date (August 1, 1997 and July 31, 2000 for union employees), and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or medicare eligible. Four persons qualified under this policy during the fiscal year ending September 30, 2008.

The Road Commission agrees to pay the first \$400 per month towards the hospitalization coverage premium for any employee who retires after the effective date (August 1, 2000 for union and December 1, 2000 for salaried employees), and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or medicare eligible. Five persons qualified under this policy during the fiscal year ending September 30, 2008.

Effective August 1, 2003, the Road Commission agrees to pay the first \$600 per month towards the hospitalization coverage premium for any employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2008.

Effective March 1, 2006, the Road Commission agrees to pay the first \$500 per month towards the hospitalization coverage premium for any **union** employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or medicare eligible. Three people qualified under this policy during the fiscal year ending September 30, 2008.

Effective February 1, 2006, the Road Commission agrees to pay the first \$350 per month towards the hospitalization coverage premium for any **salaried** employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or medicare eligible. No one qualified under this policy during the fiscal year ending September 30, 2007. Retirees that are eligible for this benefit may choose to opt out of the retiree hospitalization coverage and receive in lieu of said coverage 50% of the amount the employer would otherwise have been required to pay, provided the retiree can provide documentation proving that he/she has comparable health care coverage. Payment will be made annually by a separate check and approved at the first board meeting in January of each year. One person qualified under this policy during the fiscal year ending September 30, 2008.

The Road Commission pays \$175 a month for salaried employees who opt out of insurance coverage after retirement until they attain the age of 65 or medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2008.

The Road Commission funds this benefit on a pay-as-you-go-basis and contributed \$65,100 for hospitalization benefits during the fiscal year ended September 30, 2008.

## GRATIOT COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

#### NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2008, the Federal aid received and expended by the Road Commission was \$1,942,035 for contracted projects. The Road Commission neither received nor expended any Federal money for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission.

#### NOTE L--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

**GRATIOT COUNTY ROAD COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended September 30, 2008**

**EXHIBIT G**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
License and Permits				
Permits	\$ 36,000	\$ 36,000	\$ 36,000	-
Federal Aid				
Surface Transportation Program	-	17,653	17,656	\$ 3
Hazard Elimination Safety	2,870,400	1,127,543	1,479,400	351,857
Critical Bridge	689,700	444,975	444,979	4
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,420,000	2,440,000	2,443,312	3,312
Local Road	1,470,000	1,490,000	1,544,528	54,528
Primary Urban Road	130,000	140,000	151,603	11,603
Local Urban Road	20,000	20,000	28,554	8,554
Critical Bridge	-	109,225	109,228	3
Contributions--Local Units				
Townships	870,936	902,509	927,659	25,150
Charges for Services				
State Trunkline Maintenance	600,000	930,000	954,178	24,178
State Trunkline--Other	50,000	94,415	99,049	4,634
Salvage Sales	8,000	8,425	8,435	10
Interest and Rents				
Interest Earned	45,000	67,640	67,968	328
Other Revenue				
Private Contributions	691,600	52,490	52,475	(15)
Gain on Equipment Disposal	800	3,010	29,436	26,426
Total Revenue and Other Financing Sources	9,912,436	7,893,885	<u>\$ 8,404,460</u>	<u>\$ 510,575</u>
Fund Balance--October 1, 2007	1,118,097	2,362,945		
Total Budget	<u>\$ 11,030,533</u>	<u>\$ 10,256,830</u>		

**The Notes to Financial Statements are an integral part of this statement.**

**GRATIOT COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended September 30, 2008**

**EXHIBIT H**

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,275,000	\$ 980,840	\$ 970,258	\$ 10,582
Routine and Preventive Maintenance	1,150,000	1,967,000	1,932,492	34,508
Local Road				
Preservation/Structural Improvements	341,500	389,500	383,428	6,072
Routine and Preventive Maintenance	2,050,000	2,822,310	2,815,089	7,221
Primary Road Structure				
Preservation/Structural Improvements	403,000	84,160	73,299	10,861
Routine and Preventive Maintenance	-	1,500	1,115	385
Local Road Structure				
Preservation/Structural Improvements	879,000	591,000	590,895	105
Routine and Preventive Maintenance	5,000	9,100	9,020	80
State Trunkline Maintenance	600,000	915,000	914,145	855
State Maintenance--Other	50,000	100,000	99,049	951
Equipment Expense--Net	(580,000)	(263,000)		
Direct			\$ 807,861	
Indirect			461,988	
Operating			451,040	
Less: Equipment Rentals			<u>(2,012,101)</u>	(291,212)
				28,212
Distributive Expense	1,350,000			
Administrative Expense--Net	293,450	487,746		
Administrative Expense			550,350	
Less: Handling Charges			(1,374)	
Overhead--State			(91,749)	
Purchase Discounts			<u>(5)</u>	457,222
				30,524
Non-Road Projects	2,668,000	955,000	1,333,553	(378,553)
Capital Outlay--Net	(289,600)	(244,720)		
Capital Outlay			337,568	
Less: Depreciation Credits			(419,831)	
Equipment Retirements			<u>(167,220)</u>	(249,483)
				4,763
Total Expenditures	10,195,350	8,795,436	<u>\$ 9,038,870</u>	<u>\$ (243,434)</u>
Fund Balance--September 30, 2008	<u>835,183</u>	<u>1,461,394</u>		
Total Budget	<u>\$ 11,030,533</u>	<u>\$ 10,256,830</u>		

**The Notes to Financial Statements are an integral part of this statement.**



**GRATIOT COUNTY ROAD COMMISSION**  
**ANALYSIS OF CHANGES IN FUND BALANCES**  
**For the Year Ended September 30, 2008**

**EXHIBIT I**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$2,878,338	\$3,210,890	\$2,315,232	\$8,404,460
Total Expenditures	3,088,954	3,900,318	2,049,598	9,038,870
Excess of Revenues Over (Under) Expenditures	(210,616)	(689,428)	265,634	(634,410)
Other Financing Sources (Uses) Optional Transfers	(375,476)	375,476		
Total Other Financing Sources (Uses)	(375,476)	375,476	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(586,092)	(313,952)	265,634	(634,410)
Fund Balance--October 1, 2007	586,092	805,520	971,333	2,362,945
Restatement to Fund Balance		68,855	(68,855)	
Fund Balance--Restated	586,092	874,375	902,478	2,362,945
Fund Balance--September 30, 2008	\$ -	\$ 560,423	\$1,168,112	\$1,728,535

**GRATIOT COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES**  
**For the Year Ended September 30, 2008**

**EXHIBIT J**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
License and Permits				
Permits			\$ 36,000	\$ 36,000
Federal Aid				
Surface Transportation Program	\$ 17,656	-		17,656
Hazard Elimination and Rails to Trails	209,258	\$ 203,531	1,066,611	1,479,400
Critical Bridge	-	444,979		444,979
State Aid				
Michigan Transportation Fund				
Engineering	5,848	4,152		10,000
Allocation	2,443,312	1,544,528		3,987,840
Urban Roads	151,603	28,554		180,157
Critical Bridge	25,795	83,433		109,228
Contributions--Local Units				
Townships		874,553	53,106	927,659
Charges for Services				
State Trunkline Maintenance			954,178	954,178
State Trunkline Nonmaintenance			99,049	99,049
Salvage Sales			8,435	8,435
Interest and Rents				
Interest Earned	16,858	23,170	27,940	67,968
Other Revenue				
Private Contributions	8,008	3,990	40,477	52,475
Gain on Equipment Disposal			29,436	29,436
Total Revenue and Other Financing Sources	<u>\$ 2,878,338</u>	<u>\$ 3,210,890</u>	<u>\$ 2,315,232</u>	<u>\$ 8,404,460</u>

**GRATIOT COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**For the Year Ended September 30, 2008**

**EXHIBIT K**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 970,258			\$ 970,258
Routine and Preventive Maintenance	1,932,492			1,932,492
Local Road				
Preservation/Structural Improvements		\$ 383,428		383,428
Routine and Preventive Maintenance		2,815,089		2,815,089
Primary Road Structures				
Preservation/Structural Improvements	73,299			73,299
Routine and Preventive Maintenance	1,115			1,115
Local Road Structures				
Preservation/Structural Improvements		590,895		590,895
Routine and Preventive Maintenance		9,020		9,020
State Trunkline Maintenance			\$ 914,145	914,145
State Maintenance--Other			99,049	99,049
Equipment Expense--Net (Per Exhibit H)	(89,111)	(150,091)	(52,010)	(291,212)
Administrative Expense--Net (Per Exhibit H)	200,901	256,321		457,222
Non Road Projects			1,333,553	1,333,553
Capital Outlay--Net (Per Exhibit H)		(4,344)	(245,139)	(249,483)
Total Expenditures	\$ 3,088,954	\$ 3,900,318	\$ 2,049,598	\$ 9,038,870



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

February 18, 2009

Gratiot County Road Commission  
Board of County Road Commissioners  
200 Commerce Drive  
P.O. Box 187  
Ithaca, Michigan 48847-0187

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of the Financial Statements Performed in Accordance With  
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Gratiot County Road Commission, a component unit of Gratiot County, as of and for the year ended September 30, 2008, and have issued our report thereon dated February 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Gratiot County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not the purpose of expressing an opinion on the effectiveness of the Gratiot County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gratiot County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gratiot County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying Schedule of Findings as Finding 2008-1.

This report is intended solely for the information of the Gratiot County Board of Road Commissioners, management and others within the Road Commission, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
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February 18, 2009

Gratiot County Road Commission  
Board of County Road Commissioners  
200 Commerce Drive  
P.O. Box 187  
Ithaca, Michigan 48847-0187

RE: Report to Those Charged With Governance

We have audited the financial statements of the governmental activities of the Gratiot County Road Commission for the year ended September 30, 2008, and have issued our report thereon dated February 18, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in the engagement letter dated April 15, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Gratiot County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Gratiot County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures to specifically identify such matters.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on December 14, 2008.

### Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Gratiot County Road Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ending September 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 18, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Road Commission’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Road Commission’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the board of road commissioners and management of the Gratiot County Road Commission and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division



# GRATIOT COUNTY ROAD COMMISSION

## SCHEDULE OF FINDINGS For the Year Ended September 30, 2008

### NONCOMPLIANCE WITH STATE STATUTES

Our review and study for compliance with State statutes and regulations revealed the following noncompliance procedures:

#### General Appropriation Act

*Finding 2008-1*

*Condition:* During the fiscal year ended September 30, 2008, expenditures were incurred in excess of amounts appropriated in the amended budget in total and for the following activity:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Non-Motorized Transportation--Heartland Trail	\$ 955,000	\$ 1,333,553	\$ (378,553)

*Criteria:* MCL 141.437 Section 17 (1) states: "Except as otherwise provided in section 19, a deviation from the original general appropriations act shall not be made without amending the general appropriations act. Subject to section 16(2), the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined. An amendment shall indicate each intended alteration in the purpose of each appropriation item affected by the amendment. The legislative body may require that the chief administrative officer or fiscal officer provide it with periodic reports on the financial condition of the local unit."

MCL 141.439 Section 19 states:

- (1) A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. An expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit.
- (2) The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers within limits stated in the act between appropriations without the prior approval of the legislative body.

The expenditure of funds in excess of appropriations is contrary to the provisions of Public Act 2 of 1968, as amended. The act requires the board of road commissioners to make budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

*Directive:* We direct the Road Commission to develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.